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UNICEF management response to the annual report of the Office of Internal Audit and Investigations for 2015

Summary

The present report is submitted to the Executive Board in accordance with decisions 2010/17, 2011/21, 2012/13, 2013/14 and 2015/11. It presents the management response of UNICEF to the annual report of the Office of Internal Audit and Investigations for 2015 (E/ICEF/2016/AB/L.3).

A status update on the implementation of agreed audit actions that remained open for 18 months or more at the end of 2015 is presented in the annex.

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Contents

		Page
I.	Introduction	3
II.	Public disclosure of internal audit reports	4
III.	Management actions and plans to address the overall findings	4
IV.	Management actions and plans to address the recommendations of country office audits	8
V.	Management actions and plans to address the recommendations regarding headquarters, regional offices, joint audits and advisory services	11
VI.	Management actions to address the findings of investigations	12
VII.	Management actions to address the concluding observations in the UNICEF Audit Advisory Committee annual report for 2015	14
Annex		
	Progress update on audit recommendations that remained unresolved for more than 18 months as of 31 December 2015	16

I. Introduction

1. This report has been prepared by the management of UNICEF in response to the Office of Internal Audit and Investigations (OIAI) annual report for 2015.

2. Management is pleased to note that the OIAI assurance summary and opinion for 2015 is that the adequacy and effectiveness of the UNICEF framework of governance, risk management and controls was generally satisfactory during 2015. Management also recognizes that there is scope for further improvement and is committed to further enhancing policies, procedures, systems, staff practices and performance-monitoring mechanisms to assure appropriate governance, risk management and control practices throughout UNICEF. This management response describes the actions that management has taken to address the key issues identified in the audits and investigations undertaken by OIAI in 2015, as summarized in their annual report.

3. The management of UNICEF is committed to having an effective internal audit and investigations function and to having OIAI carry out its activities in accordance with its Charter. In 2015, OIAI capacity was expanded with the establishment of an additional position for a P-4 Investigator, the upgrade of one P-3 internal audit position to P-4 level, and increased funding for travel by auditors and investigators. In 2016, the investigation capacity was further expanded with the addition of one P-4 Investigator position.

4. Management continues to appreciate the detailed quarterly reporting by OIAI on the implementation status of its annual workplan and on the follow-up to agreed audit actions, which are provided to management and to the UNICEF Audit Advisory Committee (AAC). This quarterly reporting helps management to systematically monitor the implementation of agreed audit actions. In the first quarter of 2016, OIAI provided the Field Results Group with access to the new management audit software introduced by OIAI in 2015. This access strengthens management's capacity to address open audit actions and to identify patterns of strength and shortcomings in internal controls reported by OIAI so as to refine UNICEF policies and procedures and continue to improve management practices.

5. Management appreciates the OIAI audit approach, which includes the participation of operations staff in selected aspects of some country office audits. In 2015, 17 operational staff assisted in internal audits of country offices other than their own. Such participation strengthens knowledge exchange between offices as well as staff understanding of the functioning and assessment of internal controls through application of the professional discipline of internal audit.

6. UNICEF welcomes the valuable contribution of the AAC in reviewing and providing general guidance on OIAI workplans and reports. Management has considered the advice provided by the AAC in the concluding observations of its annual report for 2015 (posted on the Executive Board website) on the assessment of the quality of the office's performance, and in the development of management actions to further strengthen governance, risk management and control at UNICEF. The specific advice provided by the AAC is addressed in section VII of this report.

7. Management notes that a total of 38 internal audit reports of UNICEF activities were issued in 2015, with 100 high-priority actions out of a total of 561 actions agreed between OIAI and UNICEF management. The management is

pleased to note that the ratio of high-priority actions to the total number of actions has decreased for the third year in a row, going from 25 per cent in 2013 to 24 per cent in 2014 and 18 per cent in 2015. Among the 38 audit reports issued is one inter-agency audit that did not include any actions directed to UNICEF.

8. Management continues to appreciate the advisory services provided by OIAI, including the five advisory exercises undertaken in 2015, including one advisory review for which no report was issued. The four offices for which OIAI issued reports — the Global Staff Association, the Ethics Office and the Haiti and Madagascar country offices – have noted the valuable contribution of this advice.

9. Management notes that OIAI was *generally compliant* with both the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors (IIA) and the Uniform Guidelines for Investigations (endorsed by the 10th Conference of International Investigators in 2009) based on the independent quality assurance review conducted in 2013. This is the highest rating given by the IIA. Management notes that a quality assurance review by a qualified external independent reviewer is to be conducted at least every five years.

II. Public disclosure of internal audit reports

10. Pursuant to Executive Board decision 2012/13, all internal audit reports are subject to public disclosure. The same decision provides for the Executive Director and the Member States to request the Director of OIAI to redact or withhold reports under certain conditions. Of the 38 audit reports issued in 2015 (including the joint audit issued by the United Nations Development Programme (UNDP)), management notes that 32 were publically disclosed on the UNICEF website, at <www.unicef.org/auditandinvestigation/>, by 31 March 2016. Management is pleased to report that all disclosed audit reports can also be accessed through the UNICEF Transparency Portal, <http://open.unicef.org/>, which was launched in 2015. This new site contains a wide range of information on UNICEF performance. In 2015, at the request of the Executive Director, one audit report was redacted by the Director of OIAI before public release. The remaining six reports issued in 2015 are in the process of review for disclosure.

III. Management actions and plans to address the overall findings

11. The 2015 OIAI annual report lists 18 audit actions that remained open for more than 18 months as of 31 December 2015, compared to 20 actions as of 31 December 2014. All 18 actions arose from audits of headquarters functions. The office has reported to management that five of the actions that remained open as of end-2015 had been closed by 31 March 2016. A summary of the progress made in addressing the 13 remaining open actions is contained in the annex to the present report.

12. UNICEF management notes that of the 38 audit reports of UNICEF activities issued in 2015, 5 had an overall unqualified rating (indicating fully satisfactory controls), up from 3 in 2014; and 22 had a moderately-qualified rating, the same number as in 2014. In its annual report (paragraph 34), OIAI notes that "'unqualified' or 'moderately-qualified' (satisfactory) audit ratings signal to management that controls and processes are generally established and functioning as intended."

Management is pleased to note that in 2015 no audit report presented an adverse rating (compared to two reports in 2014).

13. However, management notes with concern that 11 offices received a strongly-qualified rating in 2015 (compared to 12 in 2014). In 2015, the Executive Director continued the practice of addressing any office with a strongly-qualified or adverse rating by writing to each concerned head of office and his or her supervisor to emphasize the criticality of the audit findings, the urgency of acting on the agreed remedial actions, and the importance of learning and improvement going forward.

14. Of the 38 audit reports of UNICEF activities issued in 2015, 83 per cent of all high-priority actions were in three risk areas: results-based management and reporting, supply and logistics, and governance and accountability. Result-based management and reporting accounted for 48 per cent of all high-priority actions, an increase from 42 per cent in 2014. High-priority actions related to supply and logistics increased from 12 per cent of all high-priority actions in 2014 to 24 per cent in 2015.

15. Management notes that in 2015 OIAI again considers the policies and procedures of UNICEF to be generally appropriate to manage the risks in country office governance, programme management and operational support, and acknowledges the OIAI analysis of the underlying reasons for identified weaknesses largely to be insufficient compliance in some offices. In 2015, management initiated important organization-wide actions to promote staff awareness of relevant policies and procedures, and to strengthen monitoring and oversight to more quickly identify and address weaknesses in the areas of the most frequently occurring audit observations. A selection of the most important actions that began in 2015 and have continued in 2016 is presented in the following section.

Results-based management and reporting

16. Management acknowledges that results-based management and reporting includes the largest percentage of agreed actions in country office audit reports issued in 2013, 2014 and again in 2015. To further strengthen results-based management and reporting, UNICEF took significant actions in 2015 and continues to introduce and institutionalize additional actions in 2016.

17. In October 2015, UNICEF revised the process for the development of new country programmes through the introduction of a programme strategy note. This includes increased attention to the clarity of results statements and indicators, and how these indicators are monitored and reported; a theory of change that describes how country programme results will be achieved over the course of the programme cycle; and an analysis of the alignment between the planned results and the expected funding from regular resources and other resources to be requested for approval by the Executive Board. The strategy notes for each country programme are developed with the involvement of regional offices and headquarters divisions, and are an important new reference for Regional Directors' review and endorsement of country programme documents (CPDs) before they are submitted to the Executive Board for consideration of approval.

18. In February 2016, UNICEF launched the Country Office Performance Scorecard, which provides easy-to-read, accessible information on the performance of each country office across five core dimensions: programme performance.

people, financial and partnership management and quality assurance. The five dimensions of the scorecard strengthen awareness of the performance status of each country office in areas that have often led to agreed audit actions. The system also presents a multi-office view of the performance of all country offices by region, budget, income classification of the programme country and the status of humanitarian action. These multi-office views support the assessment of performance among and between peer groups of offices. The scorecard facilitates stronger accountability at country, regional and headquarters levels for regular monitoring of office performance and timely action to address performance that falls below organizational standards. The scorecard is a component of the UNICEF inSight system, which is available to all staff through the UNICEF intranet.

19. The quality assurance dimension of the performance scorecard will include a rating for two aspects of each country programme's planned results: (a) the quality of the vertical logic of the results chain of outputs to outcomes to impact, and (b) the quality of the horizontal logic of results to indicators to means of verification of result and indicator status. Monitoring and quality assurance of these aspects was introduced in the Eastern and Southern Africa region in 2015 and is contributing to improvements in the quality of programme results statements and indicators in the region. In 2016, these aspects will be a component of the performance scorecard for all country offices.

20. To strengthen staff skills in the application of results-based management, UNICEF initiated an organization-wide learning effort for 2015 to 2017. All related courses and materials will be available in English, French and Spanish, and UNICEF is also supporting country and regional offices to translate the materials into other working languages. The learning package includes sessions on planning, implementation, monitoring, evaluation and reporting. UNICEF considers results-based management in implementation to be essential, as it is the programming phase to which programme staff devote the majority of their time. Support to programme implementation issues was the largest focus of all agreed high-priority audit actions in 2015 (21 per cent of the total). An e-learning course on results-based management will be available in May 2016 and all professional staff will be required to complete the course in 2016. A face-to-face results-based management learning programme, developed with the United Nations System Staff College, began with a global training of master trainers in February 2016 and will be introduced across all regions and at headquarters starting in May 2016. The face-to-face learning programme aims to reach 2,000 staff in 2016, and will continue in 2017. The training will include programme staff at country, regional and headquarters levels to broaden their level of awareness and application of results-based management approaches beyond the planning, monitoring and evaluation staff who had been the principal participants in previous learning actions. The learning courses are supported by a handbook, being developed with the organization that supported the development of the United Nations Development Group handbook on results-based management.

21. UNICEF continues to strengthen programme monitoring, with actions in 2015 that included improved guidance on key issues to consider during field monitoring and the introduction of the UNICEF eTools suite of electronic applications. The suite has numerous uses for country offices, including the management of field monitoring, documentation and follow-up. The key features of the eTools package were originally developed by the Lebanon Country Office and used in several

country offices in the Middle East and North Africa region. The eTools suite also includes features for travel and partnership management, as well as supply monitoring. A workplanning module to be introduced in 2016 will include a facility for reporting by implementing partners in humanitarian action. With links to VISION (the UNICEF enterprise resource planning system), eTools improves staff efficiency by eliminating data entry between VISION and other monitoring systems, and obviates local development of other key management tools. The plan is to roll out eTools to 25 country offices by the end of 2016.

22. Management is pleased to report significant improvements in the application by UNICEF of the harmonized approach to cash transfers (HACT). This marks an important improvement and is the result of the organization's dedicated attention to HACT management since 2014. Building on the successes of 2015, UNICEF has expanded the scope of responsibilities of the dedicated posts in five regional offices (which will be increased to six regional offices by the end of 2016) from the provision of HACT support to the broader issue of UNICEF engagement with implementing partners. This role expansion builds, in part, on experience during the Nepal earthquake response in 2015 when the Regional Office for South Asia provided technical assistance to the Nepal Country Office in the development of new agreements with implementing partners, which greatly strengthened the quality of agreements and accelerated their finalization. The expanded role is expected to strengthen key aspects of the organization's contracting and procurement practices, which were the source of 19 per cent of all high-priority agreed audit actions in 2015.

Supply and logistics

23. To strengthen staff skills and practices in procurement and logistics, the Supply Division continued to advance its multi-year Contracting for Services Supply Strategy that in 2015 included workshops on contracting for services in each region, and the release of a repository of terms of reference for frequently occurring types of service contracts. The repository is available to all staff through the UNICEF intranet. In 2015, 33 staff from six offices in the Middle East and North Africa (MENA) region participated in a three-day course on managing construction service projects.

24. In 2016, Supply Division is revising the guidance related to contracting for services in the UNICEF Supply Manual, and plans to conduct more than 50 staff training events on key areas, including procurement and the management of contracting for services. An online course on procurement will be launched in the second quarter of 2016. The course will include a session on developing submissions to the Contract Review Committee and another on procurement ethics, developed in consultation with the Ethics Office. Revised general terms and conditions in UNICEF procurement contracts will be issued by mid-2016, accompanied by guidance and webinar orientation sessions to staff. A contracts specialist post was established in 2016 in the East Asia and Pacific Regional Office (EAPRO), and the West and Central Africa Regional Office (WCARO) has recruited a Supply and Logistics Officer whose responsibilities include monitoring the quality of supply and logistics activities in the region.

Governance and accountability

25. This risk area includes supervisory structures and the establishment and functioning of mandated statutory committees and advisory groups. In 2015, the Comptroller issued a revised financial and administrative policy on internal controls, which clarified definitions of staff roles to strengthen understanding and application of the policy in offices. In 2016, the Field Results Group will issue revised guidance on the terms of reference of country management teams (CMTs), including clarification on the relationship between the CMT and the other statutory and advisory groups within a country office. Implementation of the agreed actions from the 2015 audit report of the management of service contracts in headquarters divisions will include improved guidance on the functioning of Contract Review Committees, which will also be applicable to country offices.

IV. Management actions and plans to address the recommendations of country office audits

A. Overview

26. UNICEF management appreciates the continued attention given to governance, programme management and operational support in the audits of country offices, and the findings reported by OIAI. In February 2016, at the invitation of OIAI, management reviewed the audit approach for country offices. This served to inform OIAI of the numerous updates to policies, procedures, guidance and performance-information-system changes introduced by management since 2015. Management warmly welcomes this invitation and is working with OIAI to address this important request. UNICEF management notes that in 2015 OIAI continued the positive practice of including in each audit report a plan developed by the country office (with the support and oversight of the regional office) and agreed with OIAI, which specifies the agreed action that will be taken to address each audit recommendation.

27. The OIAI annual report notes that 499 actions, of which 91 are rated as high-priority, were issued in the 34 audit reports of country/area offices during 2015. The total number of actions is similar to the 463 issued in 33 country office audits in 2014, when 116 were high priority. Management is pleased to note the 21 per cent decrease in the number of actions that were considered to be high-priority from 2014 to 2015.

28. Management notes that 8 of the 10 country offices to receive qualified-strong audit opinions operate in a humanitarian programming environment, including South Sudan, which is in a Level 3 emergency environment; and the offices in the Central African Republic and Nigeria, which are in Level 2 emergency environments. As at 31 March 2016, OIAI had closed 68 per cent of the actions issued to the eight country offices audited before December 2015.

B. Status of activities to strengthen controls in country offices with medium- and high-priority actions

29. As at 31 March 2016, OIAI had closed 41 of the 91 high-priority actions (45 per cent) from audit reports issued in 2015, following the review of implementation

reports submitted by country offices. Among the 62 high-priority actions in the 23 audit reports issued before October 2015, more than 56 per cent were closed as at 31 March 2016. This rate of closure at 31 March is similar to the rate reported in 2015. These country office actions are the result of decisive country office management and the support and oversight of regional offices.

30. It is expected that, following the end-2015 introduction by OIAI of an automated follow-up mechanism as part of their new audit software, the timeliness of country office implementation of agreed actions will be further accelerated.

31. Regional offices continue to regularly participate in audit exit meetings on-site or remotely to obtain a first-hand understanding of identified issues and to assist country offices to develop practical action plans. The implementation status of agreed audit actions is among the key performance indicators in the Country Office Performance Scorecard. The scorecard provides up-to-date information on all open audit actions for each country office, and highlights any audit actions that have remained open for more than nine months. Monitoring the status of all indicators in the scorecard is an established accountability of all Representatives, Regional Directors and headquarters Directors.

32. In the MENA region, 19 of the 28 agreed actions (68 per cent) from the 2015 audits of the Algeria and Oman country offices issued before October 2015 were closed by 31 March 2016. The regional office is working with the offices in the State of Palestine and Tunisia to address the total of 30 agreed actions (including the 3 high-priority actions) contained in the audit reports issued in the fourth quarter of 2015. UNICEF has strengthened the operations capacity of those offices affected by the ongoing conflict in the Syrian Arab Republic and neighbouring countries, including improved governance practices and financial control measures. To strengthen results-based management practices in the region, in 2015, the regional office conducted relevant training for more than 130 personnel operating in humanitarian programme environments.

33. In the West and Central Africa region, 40 of the 65 agreed actions (61 per cent) from the 2015 country office audit reports of Benin, the Central African Republic, the Democratic Republic of the Congo and Togo issued before October 2015 were closed by 31 March 2016. The regional office is working with the Guinea-Bissau and Nigeria country offices to address the 34 agreed actions (including 9 high-priority actions) contained in the audit reports issued in the fourth quarter of 2015, with particular attention to the Central African Republic Country Office, which received qualified-strong audit opinions. In late 2015, WCARO recruited staff for three new posts, to strengthen regional oversight and technical assistance to advance management for results in the region. A specialist in human resources performance measurement will be recruited in 2016. The Regional Director has identified accountability, office governance and ethics as the top management priorities for all offices in the region and maintains attention to these issues in group and bilateral interactions with country office Representatives.

34. In the Eastern and Southern Africa region, 106 of the 166 agreed actions (64 per cent) from the 2015 audits of the Comoros, Kenya, Madagascar, Namibia, Somalia, South Sudan, Zambia and Zimbabwe country offices and the Kenya water, sanitation and hygiene programme that were issued before October 2015 were closed by 31 March 2016. All agreed actions are closed for Comoros and Namibia, and the regional office is working with the other country offices to support actions to address

the remaining open actions, with particular attention to the Kenya, Somalia and South Sudan offices, which received qualified-strong audit opinions. In 2015, responsibilities for management of the common human resources and information and communication technology functions of the Kenya Country Office and the Eastern and Southern Africa Regional Office were transferred to the regional office. An OIAI team participated in a 2015 meeting with UNICEF Deputy Representatives and Operations and Monitoring and Evaluation Specialists from the region, to strengthen awareness of common audit findings in the region and effective internal controls to address them. In 2016, the regional office will continue to organize peer-review exercises between country offices in the region, to assess and strengthen risk management practices and internal controls.

35. In the Latin America and Caribbean region, 25 of the 48 agreed actions (52 per cent) from the 2015 audits of the Brazil (qualified-strong), Costa Rica, El Salvador, Guatemala and Panama country offices issued before October 2015 were closed by 31 March 2016. The regional office is working with the Cuba, Dominican Republic and Nicaragua country offices to address the 33 agreed actions contained in the audit reports issued in the fourth quarter of 2015. Of the eight country office audits conducted in 2015, four received an unqualified opinion and one received a qualified-strong opinion. The regional office is working with the Brazil Country Office to address the issues raised in the audit, for which 4 of the 21 actions have been closed. In recognition of the strong control profile shown by most offices in the region, in 2015, the Latin America and Caribbean Regional Office initiated a project with the Field Results Group and other headquarters divisions to identify opportunities for simplifying UNICEF procedures in small country offices that operate in low-risk programming environments. The project identified promising opportunities that will be further explored in 2016.

36. In the Central and Eastern Europe and the Commonwealth of Independent States region, all 12 of the agreed actions from the 2015 country office audit of Azerbaijan were closed by 31 March 2016. The regional office is working with the Kosovo Office to address the four remaining open agreed actions from the audit of that office. Only one high-priority action was identified by OIAI in 2015 during the two audits conducted in the region. To further strengthen the management of UNICEF actions with implementing partners in the region, the regional office is establishing a P-4 specialist position for HACT and implementing partner management for 2016-2017.

37. In the East Asia and Pacific region, 11 of the 12 agreed actions (92 per cent) from the 2015 country office audits of Cambodia and the Democratic People's Republic of Korea issued before October 2015 were closed by 31 March 2016. The regional office is working with the Philippines and Timor-Leste country offices to address the 42 agreed actions (including 11 high-priority actions) contained in the audit reports issued in the fourth quarter of 2015. During 2014-2015, all country offices in the region had conducted ethics training for their staff. In 2016, the regional office contracted an organization that will help country offices in the region to develop capacity in risk-management approaches. The regional office will hold a session on common audit issues during the 2016 Regional Meeting of Deputy Representatives and Operations Chiefs.

38. In South Asia, 6 of the 19 agreed actions (32 per cent, including 2 high-priority actions) from the India country office audit that was issued in August 2015

were closed by March 2016. The regional office expanded its performance monitoring in 2015 to include a monthly review of cash-use optimization. The regional office continues to provide ethics training sessions during visits from the Regional Chief of Human Resources.

V. Management actions and plans to address the recommendations regarding headquarters, regional offices, joint audits and advisory services

A. Audits undertaken prior to 2015

39. The OIAI 2015 annual report notes that 18 agreed actions remained open for more than 18 months at the end of 2015 (compared to 20 agreed actions outstanding for more than 18 months at the end of 2014). The 18 agreed actions are from audits of headquarters functions. At 31 March 2016, OIAI had closed 5 of the 18 agreed actions taken by the Division of Data, Research and Policy, the Division of Financial and Administrative Management, the Office of Research and the Programme Division. The status of each agreed audit action outstanding for more than 18 months at the end of 2015 is presented in the annex to this management response.

B. Audits undertaken in 2015

40. In 2015, the office issued two audit reports of regional offices and one audit report of headquarters functions and systems, and contributed to one joint audit with other United Nations agencies.

1. Regional offices

41. ***Regional Office for Latin America and Caribbean***. The audit assessed the functioning of the regional office's governance and operations management, and its oversight and support to country offices in the region. An audit report was issued by OIAI in March 2015 with an unqualified conclusion and 10 agreed actions — none of which were rated as high priority. Six actions were closed by OIAI at 31 March 2016 and the other four are being addressed by the regional office.

42. ***Regional Office for the Middle East and North Africa***. The audit assessed the functioning of the regional office's governance and operations management, and its oversight and support to country offices in the region. A report issued by OIAI in October 2015 included a conclusion of a moderate qualification and 20 agreed actions — including one rated as high priority. At 31 March 2016, OIAI had closed 4 of the actions and the other 16 are being addressed by the regional office.

2. Headquarters and thematic audits

43. ***Management of service contracts in UNICEF headquarters divisions***. Management appreciates the OIAI review of contracting practices at headquarters. Actions were agreed with a number of headquarters divisions, including the Supply Division and the Division of Human Resources (DHR). Management is addressing the agreed actions, several of which will strengthen service contract management

guidance and monitoring in the field as well as at headquarters. Twelve of the 32 agreed actions had been closed by OIAI at 31 March 2016.

C. Advisory services

44. Management values the guidance on risks and controls that the advisory work undertaken by OIAI provides. Advisory services assist management in ensuring timely intervention on issues of concern. In 2015, the office conducted five advisory services and issued four reports, as outlined below:

(a) Quality assurance review of Moore Stephens special audits of cash transfers in Madagascar;

(b) Strengthening office management in the Haiti Country Office;

(c) Support to strengthening governance and internal control capability of the Global Staff Association;

(d) Conflict of Interest and Financial Disclosure Programme in UNICEF headquarters divisions;

(e) Support to donor verifications (no report).

45. The quality assurance review confirmed the appropriateness of the methods and conclusions of the special audits in Madagascar, and the advisory support provided to the Haiti Country Office assisted the country office and the regional office. The two global reports provided important advice to the Global Staff Association and the Ethics Office.

D. Inter-agency audits

46. The office participated in a joint audit of Delivering as One in Malawi, led by the United Nations Development Programme (UNDP) with participation by the audit services of four United Nations agencies (including UNDP). The audit report, which was issued by UNDP, did not include any actions specifically addressed to UNICEF. The UNICEF Representative in Malawi is working with other members of the United Nations country team to support the Resident Coordinator to address the recommendations.

VI. Management actions to address the findings of investigations

47. UNICEF has a policy of zero tolerance for all forms of fraud and corruption and is fully committed to ethical practices. The organization strongly encourages reporting of misconduct and protects staff from all forms of harassment and reprisals for whistle-blowing. The Executive Director issues an annual memo to all staff reporting the disciplinary actions taken by UNICEF to address proven wrongdoings by staff.

48. The annual report of the Ethics Office of UNICEF for 2015 to the Executive Board provides extensive information on actions taken during the year by the Ethics Office to further strengthen UNICEF staff skills to identify issues of ethical choice and to take appropriate action.

49. As noted in the annual report of the AAC for 2015, management advocates and supports a "speak-up" culture within UNICEF. To this end, the concept of more open, frank and "in-the-moment" performance feedback was introduced to senior staff, with the aim of ensuring that the desired behaviours are modelled from the top. The Division of Human Resources is also introducing training for managers and staff on giving and receiving feedback. As part of the ongoing Global Staff Survey follow-up action plan, management will continue to closely monitor improvements in this area.

50. Following allegations of sexual abuse and exploitation of children by international peacekeeping forces in the Central African Republic, management prioritized the UNICEF response. This includes (a) the launch of a new set of internal alert and reporting protocols; (b) participation in the High-Level Steering Committee established by the United Nations Secretary-General to review and advise him on the Central African Republic independent panel report; and (c) the development of guidelines on prevention and response to allegations of sexual exploitation and abuse. In February 2016, in order to update the UNICEF Member States, an informal session of the UNICEF Executive Board was held on the "Report of an Independent Review on Sexual Exploitation and Abuse by International Peacekeeping Forces in the Central African Republic" and the UNICEF response to allegations of sexual exploitation and abuse in the Central African Republic.

51. To further strengthen UNICEF to respond to allegations of sexual exploitation and abuse, management has further prioritized (a) the review of recruitment procedures to include disclosure of allegations of sexual exploitation and abuse; (b) the introduction of new standard terms and conditions for contracts with institutional vendors and corporate or individual contractors or consultants related to the prevention of sexual exploitation and abuse; (c) mandatory training for all staff on the prevention of sexual exploitation and abuse; (d) an increased focus on victim/survivor assistance through ongoing child protection/gender-based violence programming efforts; and (e) improved capacity and skills of the OIAI staff to investigate allegations of sexual exploitation and abuse. Some of these actions have been completed and others are ongoing.

52. A dedicated Investigations Unit in OIAI carries out investigations in accordance with the Uniform Principles and Guidelines for Investigations, and in conformity with due process principles, as laid out in chapter X of the United Nations Staff Regulations and Rules. In 2016, the capacity of the OIAI Investigations Unit was further strengthened and the unit now has seven professional posts. The established channels, including a dedicated anonymous email address (integrity1@unicef.org), are being used to bring concerns and allegations of wrongdoings to the attention of OIAI.

53. Management notes that 90 allegations of wrongdoing were reported in 2015, compared to 79 in 2014. In addition, 52 allegations were carried over from 2013 and 2014, making a total of 142 cases managed in 2015. The office closed 101 of the 142 cases in 2015 and carried 41 forward to 2016.

54. Management notes with appreciation that OIAI assesses all allegations and investigates those that it believes warrant additional consideration. Management also notes that the pace of case resolution accelerated in 2015, when 71 per cent of cases were closed compared to the previous year when 58 per cent of cases were closed. The increase in the number of investigators has contributed to this improvement.

55. Management was concerned that one of the allegations received in 2015 was classified as whistle-blower retaliation. The OIAI investigation report was submitted to the UNICEF Ethics Office, which reviewed the case and the background documentation. The Ethics Office concurred with the conclusion of the investigation report. The case was accordingly referred to the Division of Human Resources, which concluded after careful review that the case be closed due to insufficient evidence.

56. The majority of the 101 investigation cases closed in 2015 consisted of fraud involving misuse of programme funds by third parties (38 cases, of which 25 resulted in two consolidated investigation reports submitted to management), followed by inappropriate staff conduct (14 cases, of which 3 resulted in investigation reports submitted to management), and medical insurance plan fraud (8 cases, all of which resulted in substantiated cases leading to 1 dismissal, 4 resignations and 3 actions against former staff). Management notes the increase in the number of cases of medical insurance fraud compared to 3 in 2014, but also notes the 100 per cent rate in substantiation of allegations and that recovery actions are under way against identified losses.

57. Management takes note of the geographic origination of substantiated allegations in 2015, with 63 per cent coming from Eastern and Southern Africa (due to 25 individual cases in two consolidated investigation reports in one country), 13 per cent from West and Central Africa and 10 per cent from East Asia and the Pacific.

58. UNICEF pursues and seeks recoveries of all identified financial losses. The potential losses identified in closed investigation cases in 2015 was $790,095. This amount includes $369,224 in burglary, robbery or theft of UNICEF property or funds; $341,145 through fraud involving the misuse of programme funds by third parties; and $79,726 medical insurance plan fraud. UNICEF made recoveries amounting to $23,900 to 31 December 2015, and efforts continue to recover the balance of the funds.

59. All eight cases submitted to the Policy and Administrative Law Section of DHR in 2015 were closed by 31 December 2015 through two dismissals, two separations with compensation, one demotion, one written censure, one closure without further action following resignation of the staff member, and one case that resulted in no further action. The OIAI 2015 annual report also notes that a case from 2014 was closed in 2015 through dismissal of the staff member. One of the cases closed through dismissal is under review by the Office of the UNICEF Legal Adviser for possible additional action.

VII. Management actions to address the concluding observations in the UNICEF Audit Advisory Committee annual report for 2015

60. UNICEF management appreciates the important contribution of the AAC to the effective and independent oversight of the organization. As noted in the concluding observations of the AAC for 2015, during the year, the committee members regularly interacted with the Deputy Executive Director for Management and other senior managers, and met with the Executive Director.

61. UNICEF management notes and appreciates the assessment and advice the AAC has provided in its 2015 annual report, including the assurance that OIAI has implemented the recommendations from the 2013 independent quality assurance review. Management has given careful consideration to the AAC report and:

(a) Notes the assessment by the AAC of the soundness of identification by UNICEF of the risks associated with the establishment of the Global Shared Services Centre (GSSC), and agrees with the AAC observation that continued attention to field office practices related to the GSSC is required;

(b) Notes the recognition by the AAC of the improvements in HACT management, and agrees with the need to maintain attention to the quality of HACT implementation;

(c) Notes that accountability for the accuracy of inSight data has been addressed by UNICEF, and that monitoring the status of management actions to address the recommendations from evaluations is included in the Country Office Performance Scorecard.

Annex

Progress update on audit recommendations that remained unresolved for more than 18 months as of 31 December 2015

Agreed action in the OIAI Annual Report	*Progress update*
Audit of the framework for managing policies and procedures, issued June 2012 (three actions)	
Two actions pertain to a governance structure for managing organizational policies, procedures and guidance; and establishing minimum standards for policy development and management.	A governance structure and standards have been drafted and are planned to be issued in 2016.
One action pertains to defining a common organizational platform for storing all policies and procedures.	The platform's technical specifications have been defined and the request for proposal is in progress for implementation in 2016.
Audit of user access controls and segregation of duties, issued April 2013 (one action)	
One action pertained to drawing up a policy formalizing the governance structure concerning user roles, documenting the processes relative to the oversight bodies and supporting teams, and seeing that governance and oversight over the Enterprise Resource Planning (ERP) system user access security become fully operational.	The Office of Internal Audit and Investigations (OIAI) closed the agreed action in March 2016, following the demonstration of completion by management.
Audit of UNICEF treasury management, issued July 2013 (five actions)	
One action pertains to exploring alternative treasury technology software to provide the automation required to meet treasury management requirements efficiently and accurately.	Extended functionality of the UNICEF ERP system has been partially implemented. One software enhancement (Portfolio Analyzer) has proven complicated to implement, but is expected to be launched during the second quarter of 2016.
One action pertains to ensuring that for all banking relationships with global providers, there are written agreements with financial partners consistent with United Nations terms and conditions, and to establish, to the extent possible, depository accounts with global and regional financial institutions, rather than local banks, for country office operational and private sector donor accounts.	Two agreements have been signed, another two are expected to be signed during the first quarter of 2016, and two are dependent on the United Nations Office of Legal Affairs for negotiations with the banks, which are under way.

Agreed action in the OIAI Annual Report	*Progress update*
One action pertains to implementing the SAP cash forecasting and cash management modules.	This action has not been implemented due to financial constraints. Management will assess information-technology-enabled projects in June 2016 to consider the feasibility of addressing this action.
One action pertains to the Division of Financial and Administrative Management (DFAM) securing sufficient technological and staffing resources to monitor established risk control policies and guidelines; the prioritization of SAP configuration and reporting requirements for treasury management; and assessment of SAP technology expertise requirements.	Extended functionality of the UNICEF ERP system has been partially implemented. One software enhancement (Portfolio Analyzer) has proven complicated to implement, but is expected to be launched during the second quarter of 2016. Additional staffing has been requested and will be reviewed in June 2016.
One action pertains to DFAM implementing the SAP Portfolio Analyzer to produce robust investment portfolio performance metrics.	The SAP Portfolio Analyzer has proven complicated to implement, but is expected to be launched during the second quarter of 2016.
Audit of the Public Sector Alliances and Resource Mobilization Office (PARMO), issued December 2013 (two actions)	
Two actions pertain to the Office of the Executive Director (OED) agreeing to issue an Executive Directive stating the strategic vision and implementation framework for the UNICEF resource mobilization function, outlining the roles and responsibilities assigned to PARMO (now the Public Partnerships Division, PPD) and other UNICEF organizational units; and establishing a strategy and requirements to improve the quality and timeliness of donor reports at the global level; clarifying the responsibilities of PPD and regional offices regarding oversight and support on donor reporting.	A draft directive on fundraising is with OED for final review and issuance. The draft directive addresses issues contained in this agreed audit action.
Audit of the Office of Research (OoR), issued December 2013 (four actions)	
One action pertains to OED establishing a policy on research that outlines the mandate, objectives, responsibilities, authorities and accountabilities of OoR as well as the other research-producing entities in UNICEF; sets standards for UNICEF research; clarifies reporting requirements to the Executive Board; and establishes mechanisms to monitor and report on compliance with the policy.	The draft research policy is with OED for final review and issuance. The draft policy addresses issues contained in this agreed audit action.

Agreed action in the OIAI Annual Report	*Progress update*
One action pertained to OED reviewing the funding mechanisms of OoR.	OIAI closed the agreed action in February 2016 following the demonstration of completion by management.
One action pertains to OED reinforcing the independent status of OoR as well as the mechanisms to promote and protect such independence.	A draft research policy is with OED for final review and issuance. The draft policy addresses issues contained in this agreed audit action.
One action pertained to the Division of Data, Research and Policy developing procedures and guidance for carrying out and reporting on research and related activities at all levels in UNICEF; and establishing mechanisms to monitor and report on research expenditure annually.	OIAI closed the agreed action in February 2016 following the demonstration of completion by management.
Audit of the Programme Division (PD), issued December 2012 (three actions)	
One action pertained to strengthening quality assurance mechanisms to ensure that results-based budgeting is implemented effectively, linking expected achievements to resource requirements.	OIAI closed the agreed action in March 2016 following the demonstration of completion by management.
One action pertained to the formalization of arrangements that will ensure timely involvement of PD in key country programme formulation and review processes.	OIAI closed the agreed action in March 2016 following the demonstration of completion by management.
One action pertains to strengthening mechanisms for obtaining feedback on the quality and relevance of issued guidance, ensuring that feedback informs the development of other guidance; and establishing processes for obtaining feedback on the performance of PD in providing technical support to country and regional offices.	This agreed action is being addressed by PD. The last update was provided to OIAI in March 2016. It is expected that the action will be completed within the third quarter of 2016 following coordinated actions with regional offices.

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Midterm review of the UNICEF integrated budget, 2014-2017

Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered an advance version of the report on the midterm review of the integrated budget, 2014-2017 for the United Nations Children's Fund (UNICEF) (E/ICEF/2016/AB/L.2).[1] During its consideration of the report, the Committee met with the Deputy Executive Director for Management and other representatives of UNICEF, who provided additional information and clarification, concluding with written responses dated 24 May 2016.

2. In accordance with UNICEF financial regulations 9.5 and 9.10, the proposed institutional budget and amendments are transmitted to the Advisory Committee for examination and reporting to the Executive Board. In that regard, the Committee's comments and observations mainly relate to the institutional component of the integrated budget.

II. Midterm review of the UNICEF integrated budget, 2014-2017

Background and presentation

3. The Advisory Committee recalls that subsequent to the budget harmonization exercise undertaken by UNDP, UNFPA and UNICEF pursuant to related decisions made by the Executive Boards, UNICEF adopted the integrated budget for 2014-2017, which for the first time covers the same four-year period as its strategic plan; follows

* E/ICEF/2016/5/Rev.1.

[1] An updated version of the document was subsequently issued (E/ICEF/2016/AB/L.2/Rev.1).

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the results-based approach in the harmonized format with a harmonized cost classification framework;[2] and applies the harmonized cost recovery methodology (see para. 23). The Committee welcomed the progress achieved, including the improved alignment between resources and the strategic plan (E/ICEF/2013/AB/L.6, paras. 2-4 and 8-11).

4. The report on the midterm review of the UNICEF integrated budget, 2014-2017 (E/ICEF/2016/AB/L.2) provides updates to the integrated resource plan, the integrated results and resources framework, the institutional budget and the cost recovery (sects. II-V). The draft decision for consideration by the Executive Board is provided in paragraph 93 of the report. Upon enquiry, the Advisory Committee was informed that proposals related to the institutional budget are contained in paragraphs 3 (b), 3 (c), 8 and 9 of the draft decision relating to the midterm review of the integrated budget. **The Advisory Committee is of the view that the presentation of the draft decision on the integrated budget should be improved by clearly indicating those elements related to the institutional component in the draft decision.**

5. Concerning reporting on the implementation of the integrated budget, UNICEF indicates that given its reliance on voluntary contributions, it has established regular internal reporting processes that include continuous and rigorous review of the income and expenditure projections that form the basis of the integrated resource plan. UNICEF will continue to report to the Executive Board as follows (ibid., paras. 90-92):

(a) At its annual session, on the fulfilment of the results articulated in the Strategic Plan in the annual report of the Executive Director;[3]

(b) At its annual second regular session, on actual financial performance in the annual revision of the UNICEF Strategic Plan: updated financial estimates;

(c) Since 2012, summary financial reporting, which is based on the statement of comparison of budget and actual amounts and in compliance with International Public Sector Accounting Standards, has also been included in the UNICEF financial statements.

Change from the biennial to the quadrennial budget and lessons learned

6. Upon enquiry, the Advisory Committee was informed that the move from the biennial to the quadrennial integrated budget was driven by requests from the Executive Boards of UNDP, UNFPA and UNICEF, with a view to aligning and strengthening the linkage between the results contained in the medium-term Strategic Plan (four-years) and related resources (the integrated budget), and that the overall experience of this move had been positive. According to UNICEF, the quadrennial integrated budget is helpful in planning activities which cover the matching duration

[2] The harmonized cost classification includes (a) development (programmes and development effectiveness); (b) United Nations development coordination; (c) management (recurring and non-recurring); and (d) special purpose (capital investments, private sector fundraising and other) (see also E/ICEF/2016/AB/L.2, tables 1 and 2).

[3] To be submitted to the forthcoming session of the Executive Board are documents E/ICEF/2016/6 and Add.1 and 2, covering reports related to the midterm review of the Strategic Plan, the implementation of the quadrennial comprehensive policy review and the revised results framework of the Strategic Plan.

of the Strategic Plan and is more in line with support to the Sustainable Development Goals set out in the 2030 Agenda for Sustainable Development (see para. 28). It also provides more flexibility to reallocate resources across the years to match with progress in the implementation of activities and the delivery of results. Furthermore, the Committee was informed that, as the approved integrated budget for 2014-2017 was based on assumptions associated with anticipated revenue and expenditure over a longer period of time (four years compared with the previous two years), it required closer monitoring and validation of the underlying assumptions and subsequent revisions to estimates made earlier.

7. It was indicated to the Advisory Committee that, given that this was the first presentation of a midterm review of the integrated budget, feedback received from the Advisory Committee as well as from the Executive Board would serve as inputs in the presentation of subsequent midterm reviews of the integrated budget. **The Advisory Committee is of the view that the secretariat of UNICEF, in consultation with those of UNDP and UNFPA, should conduct a lessons-learned exercise on the implementation of the first harmonized quadrennial integrated budget, and report to their respective Executive Boards in the context of the submission of the next strategic plan and integrated budget.**

Information on expenditures by category

8. Upon request, the Advisory Committee received information on the expenditures by category of the institutional budget for 2014-2015. The Committee notes from the information that expenditures for 2014-2015 under travel and operating expenses were 54 per cent of the total amounts approved for the 2014-2017 period. Upon enquiry, the Committee was informed that the expenditure levels reflected the mix and volume of inputs for 2014-2015 to deliver results while remaining within the overall approved budget. The variance of expenses was a combination of addressing unexpected factors, such as emergencies, and, in some cases, revised inputs to achieve planned results compared with the initial plan.

9. **While recognizing that UNICEF has incorporated the results-based budgeting approach in its integrated budget as approved by the Executive Board, the Advisory Committee, nonetheless, reiterates its request that UNICEF provide to the Committee information on major items of expenditure under post and non-post resources, as supplementary information, to facilitate its future consideration and better analysis of the institutional component of the integrated budget (E/ICEF/2013/AB/L.6, para. 4). The Committee is of the view that the supplementary information should include a comparison of expenditures against planning estimates and an analysis of variances.**

Revised integrated resource plan

10. UNICEF has revised its integrated resource plan for 2014-2017, taking into account actual revenue and expenditures for 2014, provisional estimates for 2015 and revised estimates for 2016-2017. Table 1 (integrated resource plan, 2014-2017) provides information on the use of resources by cost classification category, while table 2 (integrated results and resources framework, 2014-2017) identifies how total resources available to the organization were initially planned and subsequently revised for each of the outcomes and results.

11. Within the framework of the revised resource plan and taking into account the projected increase in total revenue of 15 per cent (from $16.3 billion to $18.8 billion), UNICEF proposes increasing the planned expenditure for programmes by 15 per cent from $14.8 billion to $17.1 billion, while maintaining the institutional budget at the initially approved level of $2,094.5 million for 2014-2017 (see paras. 16-22 below). Consequently, the proportion of total resources used for programmes will increase from 84.5 per cent to 86.0 per cent (ibid., summary and paras. 6-9).

12. Compared with the projected total resources available in the originally approved plan ($18.6 billion, comprising $6.2 billion in regular resources (RR) and $12.4 billion in other resources (OR)), the revised plan for 2014-2017 projects total available resources of $21.1 billion ($5.6 billion in RR and $15.5 billion in OR). UNICEF indicates that the 13 per cent growth ($2.5 billion) in total available resources reflects a decrease of 10 per cent ($0.6 billion) in RR, offset by an increase of 25 per cent in OR ($3.1 billion) (ibid., para. 11).

13. In this connection, the Advisory Committee was informed upon enquiry that the Secretary General's reports on the implementation of the quadrennial comprehensive policy review (QCPR) continued to emphasize the growing imbalance between core and non-core resources as a risk for operational activities for development of the United Nations system. In response to this risk, UNICEF was undertaking specific measures as follows: (a) the report on the midterm review of the Strategic Plan (E/ICEF/2016/6) would be used as an advocacy tool for partnership development and resource mobilization; (b) UNICEF continued to engage in a dialogue with other United Nations agencies and Board members on "critical mass", a concept that aimed to highlight the need for a minimum level of core resources to permit agencies to function effectively; (c) UNICEF was also investing in systems to further strengthen currency management and reduce the negative impact of exchange rate fluctuations (see para. 15); and (d) UNICEF would continue to introduce further efficiencies to allow a greater proportion of regular resources allocation towards programmes and to strengthen managing for results to demonstrate its cost effectiveness.

14. **The Advisory Committee commends UNICEF for increasing the proportion of its total resources for programmes. Noting the growth in the overall level of resources with decreases in regular resources and increases in other resources, the Committee encourages UNICEF to continue its efforts to secure regular resource funding.**

15. Concerning the impact of exchange rates on the resources, UNICEF indicates that volatility in the currency markets has impacted on the level of resources recorded in the past two years. The strengthening United States (US) dollar has negatively impacted the absolute levels of revenue recorded on non-US-dollar-based contributions. In 2015, due to the stronger US dollar, the impact on private-sector contributions was approximately 15 per cent less US dollar revenue recorded (E/ICEF/2016/AB/L.2, para. 12). Upon enquiry, the Advisory Committee was informed that the initial four-year budget was based on the May 2013 exchange rate and that the average 2015 exchange rate had been used in the midterm review for recosting for 2016-2017. The Committee was also informed that total foreign exchange loss of $84.2 million was recorded in 2015, compared with the loss of $138.5 million recorded for 2014.

III. Institutional budget for 2014-2017[4]

16. UNICEF proposes to maintain the institutional budget at the initially approved level of $2,094.5 million for 2014-2017, with $1,039.3 million funding from regular resources, $938.8 million from cost recovery, as well as $116.4 million from other resources, subject to the receipt of contributions under other resources (ibid., paras. 20 and 93). Compared with the initially approved plan, the proportion of the total resources utilized for the institutional budget would decrease from 11.9 per cent to 10.5 per cent in the revised integrated resource plan for 2014-2017 (ibid., summary).

17. With respect to post changes, it is indicated that the total number of posts funded in the institutional budget has increased by 187 since 2014, from 2,792 to 2,979 posts, as a result of emerging priorities in UNICEF operations and in response to increasing humanitarian crises and emergencies. Furthermore, UNICEF is requesting that the Executive Board grant authority to the Executive Director for the establishment of 10 additional senior-level positions, to be funded from within the approved institutional budget for 2014-2017 (ibid., paras. 83 and 93). Upon request, the Advisory Committee was provided information relating to the gender and geographic distribution of UNICEF international professional staff in 2015 (see annex).

Proposed reserve of 10 Director-level posts

18. It is indicated that the flexibility to establish 10 additional posts at the Director ("D") level is sought by UNICEF in order to provide the Executive Director with the means to swiftly address the organization's emerging business needs in two areas: (a) the ability to respond to changing circumstances in programme countries by allowing for the upgrade of Representative posts when the increasing complexity of the portfolio warrants (such as in complex emergency situations); and (b) the ability to create a cadre of highly technical D-level posts in UNICEF core business areas, such as health, education, WASH and child protection, in order to attract and retain senior-level expertise for these critical functional areas (ibid., para. 84).

19. Upon enquiry, the Advisory Committee was informed that the flexibility requested would allow UNICEF to have a reserve of senior-level posts to be available in a timely and efficient manner where and when needed in its dynamic operations, and that the need for this flexibility was immediate and could not be delayed until the submission of the 2018-2021 integrated budget. Upon request, the Committee was provided with information on the evolution of senior positions and ratios of senior-level posts to the total posts of UNICEF over the past decade (see table 1).

[4] The institutional budget comprises development effectiveness, United Nations development coordination, management and capital investments (see cost classification in para. 3 and footnote 2).

Table 1

Budget Period	*USG/ASG*	*D2/D1*	*Total number of senior posts*	*Ratio of senior posts to total posts funded under the institutional budget*
2006-2007	4	103	107	1.3%
2008-2009	4	112	116	1.3%
2010-2011	4	112	116	1.1%
2012-2013	4	108	112	1.0%
2014-2017	5	101	106	0.9%
Requested	5	111	116	1.0%

20. The Advisory Committee notes from table 1 that the ratio of UNICEF senior posts to total posts funded under the institutional budget has decreased from 1.3 per cent for 2006-2007 to 0.9 per cent for 2014-2017, while the request for the 10 senior-level posts would increase the ratio to 1 per cent. Moreover, UNICEF has reported that it continued to expand its efforts in humanitarian situations in 2015, responding to an unprecedented number of such situations, in conjunction with partners. These included protracted conflicts in the Central African Republic, Iraq, South Sudan, the Syrian Arab Republic and Yemen; health emergencies in West Africa and Latin America; earthquakes in Nepal; typhoons in the Pacific; droughts in the Sahel, East Africa and the Americas, exacerbated by El Niño; and the refugee crisis in Europe (E/ICEF/2016/6, para. 11). **Taking into account UNICEF operational requirements and the need for flexibility, in particular those related to the recent unprecedented number of humanitarian situations that UNICEF has responded to, the Advisory Committee recommends that the Executive Board grant the authority to the Executive Director for the proposed reserve of 10 Director-level positions as a pilot exercise for the remainder of the 2014-2017 budget cycle. The Committee is of the view that, if granted such an authority for a pilot exercise by the Executive Board, the Executive Director should report to the Board concerning the experience gained from the exercise and make a request for such an authority beyond 2017, if needed, in the context of the submission of the UNICEF integrated budget for 2018-2021.**

Potential review of the funding model

21. As indicated in paragraph 11, the programme expenditure will be increased by 15 per cent, while the institutional budget will be maintained at the same level in the revised integrated budget for 2014-2017. UNICEF indicates that there is a recognition that the current institutional budget funding model needs to be revisited, since it does not allow UNICEF to expand its corporate support structure capacity to strengthen oversight, risk management and technical guidance to adequately accompany the growth in programme delivery (ibid., paras. 81 and 82). UNICEF further indicates that, in preparation for the Strategic Plan, 2018-2021 and integrated budget, it will review the current funding model of the institutional budget and build on the experience of UNDP, UNFPA and WFP, including looking at ways to further enhance results-based budgeting.

22. Upon enquiry, the Advisory Committee was informed that the delivery of results with the significant increase of resources in the programme and management of related risks would require UNICEF to have the flexibility to adjust capacities in

UNICEF country and regional offices and at headquarters. However, UNICEF was not able to flexibly increase institutional capacity, as the institutional budget that funded such capacities was capped at the consolidated level funded from regular resources and cost recovery. In addition, the Committee was informed that a joint external and independent assessment of the current cost-recovery methodology would also inform the development (including funding) of the 2018-2021 integrated budget (see para. 26).

IV. Cost recovery

23. The integrated budget for 2014-2017 was prepared using the cost-recovery methodology and rates approved in Executive Board decision 2013/5,[5] which aimed to improve the proportional use of regular resources and other resources to fund management activities and related costs (E/ICEF/2016/AB/L.2, para. 85). The Advisory Committee recalls that it welcomed the positive trend by which an increasing percentage of the institutional budget was being funded from cost recovery, freeing more resources for allocation to programme activities (E/ICEF/2013/AB/L.6, para. 17).

24. Of the $2,094.5 million institutional budget for 2014-2017, $938.8 million from cost recovery from OR is proposed (see also para. 16). It is indicated that, compared with the approved budget for 2014-2017, the proportion of management activities funded from cost recovery will increase from 54.8 per cent to 63 per cent in the revised budget.

25. Table 3 in the report on the midterm review of the integrated budget provides information on the approved and actual proportional use of regular resources and other resources to fund the institutional budget for 2014-2015, as well as the cost-recovery rates (E/ICEF/2016/AB/L.2, paras. 86 and 87). As shown in table 3, the effective cost-recovery rate of 6.4 per cent for 2014-2015 is lower than the projected rate of 7.6 per cent for 2014-2017. UNICEF indicates that this is expected, given: (a) the Executive Board approval of differentiated cost-recovery rates, including for thematic and private sector contributions; and (b) the fact that a higher proportion of expenditure in 2014-2015 was against contributions received and agreements signed prior to the introduction of the new cost-recovery rates (ibid., paras. 85-87).

26. UNICEF further indicates that an independent and external assessment on the consistency and alignment of the cost-recovery methodology, as requested in Executive Board decision 2013/5, will provide further information on the application of the cost-recovery methodology and rates. A joint report will be presented at the 2016 second regular session of the Executive Boards of UNDP, UNICEF, UNFPA and the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women).

[5] The Executive Board endorsed, inter alia, harmonized cost-recovery rates including (a) a general rate of 8 per cent for non-core contributions, as of 1 January 2014, that would be reviewed in 2016; (b) a harmonized 1-per-cent reduction for the thematic contributions; and (c) maintaining the existing preferential rates for government cost-sharing, South-South contributions and private-sector contributions.

27. **The Advisory Committee welcomes the increasing percentage of the funding of the institutional budget from cost recovery. The Committee expects that, in accordance with General Assembly resolution 67/226, the financing of all non-programme costs will be based on full cost recovery, proportionally, from core and non-core funding sources. In this regard, the Advisory Committee looks forward to receiving an update on the alignment of the cost-recovery methodology with General Assembly resolution 67/226, including the findings of the independent and external assessment involving UNDP, UNFPA, UNICEF and UN-Women, in the context of the next submission of the integrated budget.**

V. Other matters

2030 Agenda

28. The Advisory Committee was informed upon enquiry that UNICEF had identified from the 2030 Agenda additional work it needed to carry out, including that related to climate change, urbanization, early childhood development, adolescence and migrant and refugee children. The midterm review of the Strategic Plan and the integrated budget had provided an opportunity for UNICEF to reprioritize some activities and funds within the existing approved budget levels in order to support the work related to the 2030 Agenda. The Committee was further informed that the implications of the 2030 Agenda were discussed in detail in the report on the midterm review of the Strategic Plan, 2014-2017 (E/ICEF/2016/6), and that further work would be elaborated as part of the next strategic plan and integrated budget.

29. The Advisory Committee recalls that in its latest report on the 2030 Agenda and the Addis Ababa Action Agenda (A/70/883), it recommended that the General Assembly request the Secretary-General to submit, no later than at the main part of the seventy-first session, a comprehensive proposal that addressed the effective and efficient delivery of mandates in support of the two Agendas, together with a request for appropriation. **In this regard, the Advisory Committee trusts that UNICEF will work with other United Nations system entities to ensure an integrated approach to the implementation of the 2030 Agenda and the Addis Ababa Action Agenda.**

Fundraising activities of UNICEF National Committees

30. It is indicated that budgetary provisions for private sector fundraising (PSFR) under special purpose activities comprise the direct costs and investment costs supporting the fundraising and marketing activities of the National Committees for UNICEF and UNICEF country offices (E/ICEF/2016/AB/L.2, paras. 21 and 22). The appropriation for these resource requirements is presented for approval by the Executive Board on an annual basis, in conjunction with the Private Fundraising and Partnerships workplan and budget. In response to a 2013 external audit recommendation to "consider presenting and reporting the budget for the PSFR activities of its country offices in an integrated manner", a provision of $86 million funded from OR is included in the revised integrated resource plan for 2016 and 2017, of which a provision of $43 million for 2016 is included as part of its annual budget submission to the Executive Board in document E/ICEF/2016/AB/L.1.

31. Upon enquiry, the Advisory Committee was informed that in the 2015 unaudited financial statements (to be published in September 2016), UNICEF had recognized voluntary contributions of $1,123 million as the resources mobilized by the National Committees for UNICEF. In addition, the National Committees retained 23 per cent ($333.64 million) of the resources mobilized, which was below the recommended 25 per cent target, as the income recognized in their respective financial statements in line with the joint strategic plans in place. A breakdown of the contributions from the National Committees by country is contained in the UNICEF 2015 Annual Report.

Global Shared Services Centre

32. UNICEF reports that in the past two years, substantive changes have been made in areas such as realigning headquarters functions, confirming responsibilities of field offices, strengthening regional office capacities, simplifying work processes and establishing the Global Shared Services Centre. Upon enquiry, the Advisory Committee was informed that leveraging from its enterprise resource planning system and other technologies, UNICEF has established a Global Shared Services Centre in Budapest, Hungary. Operational since the third quarter of 2015, the centre has gradually started to take over transactional and support functions in the areas of finance and human resources and the information and communications technology Global Help Desk. **The Advisory Committee notes the establishment of the UNICEF Global Shared Services Centre and looks forward to receiving information on progress at the Centre, including a cost and benefit analysis, in the context of the submission of the next integrated budget.**

Vehicle ratios

33. The Advisory Committee enquired about the standard ratios for vehicle holding at UNICEF offices and the related policy. The Committee was informed that Regional Directors and Country Representatives, or the designated officers in charge, were the only staff members to whom a vehicle could be individually assigned for official purposes. Other than this, UNICEF did not have a recommended vehicle-to-staff ratio. In country offices, vehicles were purchased primarily to support programme activities and the number of vehicles was dependent on the nature of the country programme. The Committee was also informed that title of vehicles purchased was normally transferred to implementing partners and that title was retained in the name of UNICEF only under exceptional circumstances where implementing partners did not have the capacity to safeguard and maintain these assets. **The Advisory Committee encourages UNICEF to consider formulating a vehicle holding ratio policy that will cover all staff in the field to the extent applicable.**

VI. Recommendation

34. The proposals with respect to the institutional component of the revised integrated budget for 2014-2017 are set out in paragraphs 3 (b), 3 (c), 8 and 9 of the draft decision contained in the report on the midterm review of the integrated budget, 2014-2017 (E/ICEF/2016/AB/L.2 and Rev.1). **Subject to its comments and recommendations above, the Advisory Committee recommends that the Executive Board approve the institutional component of the revised integrated budget for 2014-2017 for UNICEF.**

Annex

Gender and regional distribution of international professional staff in 2015

Regional		*2015*	
Staffing distribution	*Gender*	*Number of staff*	*%*
CEE/CIS	Female	40	56%
2%	Male	31	44%
EAPR	Female	115	50%
8%	Male	114	50%
ESAR	Female	263	45%
19%	Male	316	55%
LACR	Female	62	53%
4%	Male	54	47%
MENA	Female	122	41%
10%	Male	175	59%
ROSA	Female	112	52%
7%	Male	104	48%
WCAR	Female	246	42%
19%	Male	340	58%
Other HQ	Female	188	57%
11%	Male	145	44%
NYHQ	Female	329	55%
20%	Male	273	45%
Total	**Female**	**1 477**	**49%**
	Male	**1 552**	**51%**
		3 029	